Corporate philanthropy, reputation risk management and shareholder value: A study of Australian corporate giving.

Keywords: corporate philanthropy, reputation risk management, shareholder value.

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Abstract

This study examines the role of corporate philanthropy in the management of reputation risk and shareholder value. It extends current empirical data about corporate giving by Australian companies by examining the interplay between levels of corporate philanthropy with corporate reputation and shareholder value. The reasons behind corporate giving have been well researched in academic journals, but examining the direct link between reputation and shareholder value in these cases is lacking. The results of this study show that increasing a firms' investment in corporate giving must be done concurrently with an increase in reputation risk management in order to increase shareholder value. That is, the market foresees that the impact of corporate giving for a given the level of reputational risk management occurs in the future and hence is included in an increase in shareholder value. Our results are consistent while controlling for potential endogeneity. This paper assists both academics and practitioners by demonstrating that the benefits of corporate philanthropy extend beyond a gesture to improve reputation or an attempt to increase financial performance, to a direct collaboration between all the factors where the benefits far outweigh the costs.

Introduction

The aims of this study are threefold. Firstly to investigate corporate philanthropy in Australian listed firms through determining levels of giving as well as to discern where possible the motivations behind it. The second element of this study is to measure corporate reputation. This will be achieved using a comprehensive media analysis. The third element of the study is to determine whether the interaction of corporate philanthropy and reputational risk is associated with a change in shareholder value. Consequently, this study extends the current empirical data about corporate giving in Australia by examining the interplay between levels of corporate philanthropy, corporate reputation and shareholder value.

This research is important for several reasons. Firstly, boards need a definitive base on which to judge the benefits of corporate philanthropy to the community and to the sustainability of the company itself. Research to date has tended to focus on how best to measure community impact of the corporate contribution, with an estimated 75 types of social measurement now in use (Epstein and Buhovac, 2014). However, while important such impact measurement is only one side of the equation. Much has been written about the 'business case' for corporate philanthropy but the amount of empirical data is outstripped by rhetoric.

Secondly, economic downturns such as the recent Global Financial Crisis (GFC) are typically accompanied by a reduction in corporate giving and corporate giving is slower to recover than individual giving[1]. Catalyst Full Disclosure Study of 12 companies reports that in 2010, ten of Australia's largest companies contributed over half a billion dollars to the community. Seventy percent of the total funds contributed were donated by Australia's two largest

[1] see for example http://www.worldfuturefound.org/a/Research/Papers/2013/0121/637.html

companies, BHP Billiton and Rio Tinto. Relative to profits, contributions to communities rose between 2006 and 2009, before falling in 2010. Interestingly, profit accounts for only half of the difference between what companies invest while factors such as the nature of the industry in which the company operates, its culture or the priorities of senior executives and boards account for the other half. Between 50 and 80 percent of the value of all contributions are direct cash donations. This suggests that economic uncertainty and the tone at the top of corporations influences donations which in turn are related to the certainty of future cash flows. This means corporate giving is often reduced in the times when it is particularly needed.

Thirdly, corporate support is needed if non-profit organisations are to survive. As Madden and Scaife assert (2007:151) 'Giving may be increasing, but so too are non-profit numbers and traditional government funding is waning'. They also point out that current corporate giving forms only a fraction of the funds for the non-profit sector and much scope exists for corporate giving to grow and boost community coffers. Consequently, research developed from the business perspective can inform non-profit research and practice. Encouraging corporations to think 'strategically' about such activities provides the impetus to business to engage more with community organisations for mutual benefit. Corporate philanthropy is a strategic decision that can contribute to the firm's competitive positioning in terms of attracting customers, employees, or strategic partners.

The fourth reason to consider is, corporate philanthropy is a product that can be marketed to the public (Collins, 1994; Lowengard, 1989; Simon, 1995). It is an investment of resources that can benefit the firm (Bennett 1998) through enhanced reputation which in turn may bring employee recruitment and retention benefits, create more customer interest and purchases and reduce public and regulatory scrutiny. Bruch and Walter (2005:50) reinforce these dual needs suggesting that it is 'only philanthropic activities that both create true value for the

beneficiaries and enhance the company's business performance are sustainable in the long run'.

Consequently, this research is motivated by the importance of determining the role corporate philanthropy plays in the management of reputational risk and shareholder value. Boards need a definitive basis on which to judge the benefits of corporate philanthropy to the community and to the sustainability of the company itself.

The results of the study suggest that, while directly controlling for endogeneity with three least 3SLS, that increasing firms' investment in corporate giving increases the likelihood that there will be an increase in shareholder value given the association between reputation risk management and corporate giving. The negative association between corporate giving and shareholder value is mitigated by the firm's reputation risk management. That is, the market foresees that the impact of corporate giving on reputational risk management occurs in the future and hence is included in an increase in shareholder value.

In the next section we discuss the background to the research and identify the research questions we will address in this study.

Background and Research Questions

A passive or reactive approach to managing corporate reputation is unsustainable in today's environment. This is due to many factors such as: increased public awareness about corporate activities, increased demand for transparency, higher expectations by multiple stakeholder groups, social media, effect of the influence of opinion leaders, the growth in interest groups and increased attention from media (Shamma, 2012). Companies need to actively manage their reputations and not merely react to situations of heightened reputation risk. Corporations can use donations as a way to manage their reputation risk evidenced through research which

finds that firms that have higher levels of philanthropic expenditures have better reputations (Brammer and Millington, 2005). Society has evolved since the era of shareholder opposition to corporate philanthropy as a valid business activity expressed through views such as Friedman (1970). Ditley-Simonson and Midttun (2010, 27) posit instead that in the current context of higher scrutiny there is a longer term approach to profit or value-maximising business strategies that involves philanthropy.

Lastly, Godfrey (2005: 777) makes 3 theoretical assertions: "(1) corporate philanthropy can generate positive moral capital among communities and stakeholders, (2) moral capital can provide shareholders with insurance-like protection for a firm's relationship-based intangible assets, and (3) this protection contributes to shareholder wealth". Research supporting these assertions finds that a positive relationship between philanthropy and performance is stronger for firms with greater public visibility (reputation) and for those with better past performance, as philanthropy by these firms gains more positive stakeholder responses (Wang and Qian, 2011).

To address these issues enlightened stakeholder theory is used to develop a theoretical model of the business case for the relation between corporate philanthropy, corporate reputation management and shareholder value. Enlightened Stakeholder Theory, developed by Jensen (2001), recognises that a firm adopting a single-minded approach to realise maximum value for shareholders to the detriment of various stakeholder groups is unlikely to succeed. For example, paying minimum salaries to employees and requiring them to work in very poor conditions is likely to have a negative effect on productivity which may more than offset any cost-savings and so actually reduces the value of the firm.

A firm's ability to generate sustainable wealth over time, and hence its long-term value, is determined by its relationships with critical stakeholders. Enlightened stakeholder theory

suggests that management has to consider the impact of its decisions on a broad spectrum of stakeholders however, consistent with agency theory, they must ultimately evaluate all decisions on the basis of their impact on the market value of the company.

That is, management should still apply net present value analysis to every decision. In other words, no investment or financing should be undertaken by the firm unless the present value of the associated incremental benefits exceeds the present value of the incremental costs. In this framework, it is highly possible that investment in some corporate social responsibility activities will have a positive impact on the value of the firm and thus be justified.

Activities that bring reputational benefits to the company will increase both profitability and market valuation in the longer-term. Examples of this could include decisions to improve product quality or donate to medical research, both of which might have an initial detrimental impact on profitability but contribute to the improvement in the company's market image. This may then translate to increases in both profitability and market valuation in the longer-term.

The three core concepts explored in this project are corporate philanthropy, reputation risk and shareholder value. Corporate philanthropy is an 'unconditional transfer of cash or other asset to an entity or settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner' (FASB, 1993:2). Since the reputation of an organisation 'is based on the sum of how all constituencies view the organisation' (Argenti, 2005: 3), then reputation risk is the risk of a change in the way an organisation is perceived by its various stakeholders. Lastly shareholder value is the expected discounted value of a firm's anticipated cash flow stream from the employment of its tangible and intangible assets consistent with the Capital Asset Pricing Model (Breasley et al. in Godfrey, 2005).

Christensen and Raynor (2003) indicate that the factors that create a reputation within the private sector are: long term financial performance; corporate governance and leadership; corporate social responsibility; workplace talent and culture; delivery of external partners' promises; regulatory compliance and communication and crisis management. Murray (2003) further states that managing reputation is more about the risk associated with the relationship the organisation has with stakeholders and the public, as their perception of the organisation contributes to the reputation of that organisation. Essentially 'reputation management is an evolving set of practices that leading companies are developing to help them cope with the changing expectations of their audiences, to manage the interpretations those audiences make, and to build favourable regard' (Fombrun quoted in Schulz et al., 2000: 95).

Brotzen Mayer in Atkins et al. (2006: 8) provide the following example 'if a company has a reputation for putting profit before principle, it will face a tougher battle to protect its reputation. Companies that weather a crisis of reputation have often accumulated 'credit in the bank' with the public and stakeholders'. In other words, a company with a good, solid reputation will often withstand a threat to its reputation during a crisis, as it has a greater agility and reservoir of goodwill to withstand the impact of the crisis. This is also commonly referred to as moral capital and the literature suggests that building a stock of 'moral capital' can be critical in guarding a company's reputation.

This study extends this theory by determining whether investing in philanthropy builds a bank of moral capital. Researchers such as Gardberg and Fombrun (2006) and Godfrey et al. (2009) find that a good reputation can act as robust protection when negative events occur. Godfrey et al. (2009: 442) affirm that their results 'indicated that managers of firms who engage in CSR activity can create value at times for their shareholders through the creation of insurance-link protection'. Dowling (2006) proposes that the reputation of a company is the

ultimate responsibility of the board, unlike many reputation experts who believe it lies with the CEO and other executives. Trust, which is an integral component of reputation and company performance, can be improved in the minds of stakeholders, as the company's reputation increases. This leads to the question: how can a company act with high morality and portray this behaviour to stakeholders to gain a good reputation?

Although there is a definite agreement by researchers that corporate philanthropy does influence the publics' perceptions of a firm (Smith, 1994; Himmelstein, 1997; Saiia et al, 2003), whether this correlation is positive or negative is mixed. Some research (Knauer, 1994 and Godfrey, 2005) asserts that public goodwill is gained by participation in charitable activities. Brammer and Millington (2005) find that firms with higher levels of philanthropic expenditures have better reputations. However, there are also many who disagree with this proposal. Many of the negative associations centre on public perceptions that it is self-interest of the companies' that motivates charitable activities. Bae and Cameron (2006) contend that when a company has obtained a good reputation, their philanthropic activities will be viewed with less scepticism thereby mitigating the self-interest perspective. However, they find that public scepticism in corporate giving can diminish corporate reputation.

Consequently, it is important to have a more strategic approach to philanthropy to ensure the positives outweigh the negatives. Foster et al. (2008: 759) assert that 'companies that have integrated philanthropy into their operations are quite distinct in both attitudes and behaviour from the others'. This approach to philanthropy also is significant according to the literature. Saiia (2003) stated by being strategic in charitable activity selection, a firm can improve its 'bottom line'.

While the literature identifies that a good reputation leads to increased financial performance, the correlation between corporate philanthropy and financial performance has received mixed results. Friedman (1970) argued that philanthropy will have a negative impact on financial performance as it is simply a corporate expenditure. Berman et al. (1999) find that corporate involvement in community had little influence on financial performance; while Orlitzky et al. (2003) find a positive correlation between corporate philanthropy and financial performance.

With this background in mind, the study merges two streams of research; 1) the association between corporate philanthropy and reputational risk; and 2) the association between corporate philanthropy and shareholder value. Merging these two areas of research we set out to determine whether corporate philanthropy enhances shareholder value by reducing reputational risk.

Accordingly, the two main research questions addressed in this paper are:

1) Does corporate philanthropy mitigate or increase firms' reputational risk?
2) Does shareholder valuation of corporate philanthropy depend on the level of reputational risk?

Research Method

To test the first research question requires a collection of reputational data relevant to each company. Based on prior research (Deephouse, 2000; Fombrun and Shanley, 1990), media analysis is conducted to ascertain a media reputation score. Media Agenda Setting Theory 'posits a relationship between the relative emphasis given by the media to various topics and the degree of salience these topics have for the general public' (Ader, 1995: 300). In other

words, media coverage influences public perception as it places the organisation at the forefront of the public's minds.

McCombs and Shaw (1972) investigate the agenda-setting hypothesis with fairly robust results. Their study supports the theory that the media can set the tone for the public opinion of an organisation's reputation. Carroll (2004) tests agenda setting in business news content. The study supports the notion that agenda setting predicts that more media coverage about a firm would result in a higher degree of public awareness of that firm. Data is collected from a variety of media sources of each participating company. The information collected is coded using the content analysis computer software, NVivo. A select sample was initially coded by hand to test the results against those obtained through the computer software. Following this test, the remaining data is analysed using the program. The results from this analysis are used to ascertain a reputation score for each company, based on agreed metrics among the three researchers that indicate measures of presence and strength of good and poor reputation.

Testing the second research question requires careful consideration of potential endogeneity between variables of corporate reputation, corporate giving and shareholder value because all three variables are likely to be associated. We would expect that corporate philanthropy will be associated with reputational risk and likewise reputational risk is associated with corporate philanthropy. In addition we expect that shareholder value to be associated with corporate philanthropy and reputational risk. Random effects regression is likely to produce either non-significant coefficients or coefficients that are statistically significant but of substantially lower magnitude compared to three-stage least squares (3SLS) regression. This is because the random effects regressions will possibly produce biased standard errors and suffer from Type I error. In contrast the 3SLS method, which takes into account covariances between the error terms of different equations, is more likely to provide unbiased and consistent standard

errors, thus yielding more robust coefficient results and valid tests of hypotheses (Setia-Atmaja, Tanewski and Skully, 2009)[2].

The main difference between two-stage least squares (2SLS) and 3SLS estimations is that 3SLS captures cross-equation effects as error terms of individual equations in the system which are assumed to be contemporaneously correlated under 3SLS. Also, the 3SLS estimation technique is more suitable for cross-sectional studies, where some of the changes in firm value differ due to different investment in the community which is different for various levels of reputational risk. As a result, reputation risk management, corporate giving and firm value issues can affect each other in various ways. These interactions can be captured through the 3SLS estimation technique.

To eliminate the potential endogeneity problem or reverse causality, the estimation endogenizes reputation risk management, corporate giving and shareholder value (Tobin's Q). The three equations are solved as a system of simultaneous equations using three-stage least squares (3SLS) estimation method. The 3 equations set out below are used to test the two research questions simultaneously.

RQ1

$$CorpGiving = a + B_1\text{Reputational risk} + B_2\text{firm size} + B_3\text{firm age} + B_4\text{firm performance} + B_5\text{FCF} + B_7\text{industry} + e \quad (1)$$

$$\text{Reputational risk} = a + B_1\text{corpgiving} + B_2\text{firm size} + B_3\text{social} + B_4\text{environmental} + e \quad (2)$$

[2] The Durbin–Wu–Hausman (DWH) test which determines whether there is no endogeneity in the equation (null hypotheses). The significant DWH tests ($F(1, 681)$; p = 0.0000) indicate that endogeneity is present in the OLS estimates and the instruments have corrected for it.

The next step in the analysis tests the mediating role of reputational risk on the association between philanthropic expenditures and shareholder value.

RQ2

Shareholder value$_{t+1}$ = a + B_1reputational risk + B_2philanthropic expenditures + B_3reputational risk*philanthropic expenditures + B_4controls + e *(3)*

Dependent variables

These variable utilises the reputational data collected to calculate a score out of 100 for each company. The higher the score, the better reputation the company has meaning the more effective their reputation risk management.

Philanthropic expenditure

Unlike the 1985 UK Companies Act where companies are obliged to disclose charitable donations that exceed 200 pounds, there is no such disclosure requirement for Australian firms, any disclosure of charitable donations or community investment is entirely voluntary. Firms that disclose that they are involved in community investment either provide a narrative and amounts donated/in-kind or a narrative only. Unlike previous research which has used the absolute figure for charitable donations (eg. Brammer and Millington), our measure of philanthropic expenditure is a measure of charitable donations as a percentage of profit before tax. This is supplemented with disclosure of community investment where available, that is, we add this amount to charitable donations if disclosed.

Shareholder value

The last component of the study is an investigation of shareholder value and shareholder wealth using two market measures. First, TSR = total shareholder return or return on

common stock consists of the [year-end closing price of a firm's stock + dividends per share] / the share price of the previous year. This measure reflects the one-year total gain (loss) a shareholder receives for holding the firm's common stock (Bloom and Milkovich, 1998; Kren and Kerr, 1997). Second, Tobin's Q = the market value of the firm / replacement value of assets which a simple measure of Tobin's Q as adopted by Agrawal and Knoeber (1996). The market value of the firm is the market value of equity (total number of issued shares by the ordinary share price at year-end) and debt (total of short and long-term debt). The replacement value of the firm's assets is the book value of total assets. This simple measure of Tobin's Q is adopted because it is highly correlated (0.93) with the traditionally inflation-adjusted figures and ease of computation. Shareholder value is measured at t and we include t-1 to control for reverse causality. Including lagged performance (TOBINSQt-1) as an independent variable allows for performance persistence and for feedback from past performance to current corporate giving (Bohren and Strom, 2010; Wooldridge, 2002). Inclusion of the lag of the dependent variable is likely to mitigate concerns over reverse causality and omitted variables. To the extent that omitted correlated variables are relatively stable, their effects can be captured by lagged values of the dependent variable.

Independent variables

We collected the following dummy variables related to corporate giving to determine if they are correlated with the measure of reputational risk.

Secondment scheme = Employee secondment can include allowing staff to spend (paid) time working on or providing services to community/charitable activities. For example, reading in schools or time off for volunteering activities.

Payroll giving = The Company has a payroll giving scheme

Gifts in kind = The Company provides equipment or low-rent premises

Detailed report provided = The Company has a Community Report published giving details of projects supported

Board member community involvement = The Company has a Board Member with overall responsibility for community involvement

Senior manager named for community involvement =The Company has a senior manager responsible for community involvement.

Control variables

The two papers which consider research question closest to ours are Godfrey et al. (2009) and Brammer and Millington (2005). We draw on these papers to determine the appropriate control variables to reduce the possibility of biased results from omitted variables. Godfrey at al. (2009) identifies the following firm characteristics that are likely to be associated with corporate giving: firm size, industry, return on assets (ROA), leverage. We also control for the following variables that are likely to impact corporate giving (model 1): free cash flows measured as gross cash flow less gross investment. Free cash flow is not affected by capital structure as the tax benefits of debt are reversed out, company age and industry, older companies and certain industries are likely to give to charity.

In the reputation risk model (2) we control for firms that have social externalities (e.g. gambling, alcohol, tobacco, pharmaceuticals, and defence) or environmental impacts (e.g. chemical, mining and utilities) as they are likely to have an impact on reputation (Brammer and Millington, 2005). Firm size and profit before tax (PBT) are also likely to be associated with reputational risk. The controls in the shareholder value model (3) are chosen by their impact on shareholder value and having no association with reputation risk or corporate giving. It is unlikely that the year, the previous year's shareholder value or the current years leverage is going to have any direct association on the current years reputation risk or

corporate giving. Firm size is included in all the models as it is an important variable of nearly all factors.

Sample

The sample consists of the top 330 Australian publicly listed firms for 2011, 2012 and 2013 that engaged in philanthropic activities as disclosed in the annual report. These years were chosen to separate crisis giving from regular giving. Prior years included several major disasters such as the floods in 2010, fires in 2008 and Tsunami in 2004. Consequently, we chose 2011, 2012 and 2013 as the most recent years without a major disaster. Disclosure of the dollar value of philanthropic activities is required to measure the significance of the activity as a percentage of total revenue. We started with a sample size of 330 which was reduced to 300 after eliminating firms with missing variables.

Results

Table 1 reports the industry frequencies for the sample of 330 Australian firms before the reduction to test the research questions. The most frequent industry in our sample is oil and gas (14.8 percent) followed by mining (9.7 percent). Table 2 Panel A summarizes the descriptive statistics for the continuous variables of the pooled balanced panel of 330 observations for 2011 to 2013 firms and Panel B provides the descriptive for the categorical variables. The average score for reputational risk management is 65 percent out of a possible 100 percent. The average corporate giving as a percentage of profit before tax is 0.31 percent. The average TOBINSQt is 0.91 and the average TSRt of 5.98. Nearly one-third the sample (32 percent) is in an industry that has some impact on the environment while only 8.2 percent are in an industry that has a social impact. Fifty-one percent of the sample provides GRI compliant reports.

Table 3 shows the Pearson 2-tailed correlation matrix. This table demonstrates a significant positive correlation between reputation risk management and the following: corporate giving and the non-financial components of the organisations philanthropic activities, employee secondment can include allowing staff to spend (paid) time working on or providing services to community/charitable activities. For example, reading in schools or time off for volunteering activities. The Company has a payroll giving scheme The Company provides equipment or low-rent premises. The Company has a Community Report published giving details of projects supported. The Company has a Board Member with overall responsibility for community involvement. The Company has a senior manager responsible for community involvement. Corporate giving is also significantly associated with the log of market capital and leverage.

Table 4 reports the results from testing the research questions simultaneously. Panel A presents the results for the 3SLS estimation of the three equations in which shareholder value is measured as Tobin's Q while shareholder returns (TSR) is reported in Panel B. Column 1 of Table 4 Panel A shows the effect of reputation risk on corporate giving as specified by Eq. (1). Column 2 shows the effect of corporate giving on reputation (Eq. 2). Column 3 shows the effect of reputation risk and corporate giving on Tobin's Q (Eq. 3).

Panel A (column 1) of Table 4 shows that reputation risk management is a significant determinant of corporate giving which supports H1. Corporate giving is positively associated with reputation risk management (B = 0.184; p < 0.001). Column 2 shows that corporate giving is also positively associated with reputation risk (B= 5.33; p < 0.001). Column 3 shows that corporate giving is negatively associated with Tobin's Q (B= -1.084; p < 0.05) and reputational risk is positively associated with Tobin's Q (B= 0.052; p < 0.01). The economic significance of this result is that for every cent in the dollar the firm spends on corporate

giving, Tobin's Q will decrease by 0.413%. In contrast, if the firm increase their reputation by 1 point then Tobin's Q will increase by 0.267%. Consequently, the interaction of corporate giving and reputation risk management is positively associated with shareholder value ($B = 0.007$; $p < 0.10$). This result means that the firm should manage it reputation while concurrently increasing its corporate giving if it wants to increase shareholders' value of the firm. In other words, the market places greater value on the contributions of corporations when the firm also manages its reputation.

Panel B reports no significant associations between corporate giving or reputation risk management and shareholder wealth. There are several plausible reasons for the differences in the results for shareholder value and shareholder wealth. Shareholder value (Tobin's Q) is measured using firm value which incorporates forward looking information and market perception. Tobin's Q is measured as the market value of the firm divided by replacement value of assets. If Tobin's Q is greater than one, the market value of shareholder and creditor investment is greater than the amortized historical cost of the assets. Because Tobin's Q measures the market value of shareholder and creditor investment it encompasses a market assessment of the investment opportunity set and future cash flows of the firm. Shareholder return (TSR) is a measure of the return to stock holders which is based on past performance. This measure reflects the one-year total gain (loss) a shareholder receives for holding the firm's common stock. The decision to pay dividends will be adversely affected by corporate giving as there will be less cash to pay dividends by definition.

The results of the study suggest that, while directly controlling for endogeneity with 3SLS, that increasing firms' investment in corporate giving increases the likelihood that there will be an increase in shareholder value given the association between reputation risk management and corporate giving. That is, the market foresees that the impact of corporate

giving on reputational risk management occurs in the future and hence is included in an increase in shareholder value.

Conclusion

The purpose of this study is to examine the influence of corporate philanthropy on corporate reputation and shareholder value. Particular attention is paid to the role that corporate giving and reputation risk management play in determining shareholder value. The study finds that it is the interplay of corporate giving and reputation risk management that is positively associated with shareholder value. Taken separately, corporate giving is negatively associated with shareholder value while reputation risk management is positively related to shareholder value. This result means if firms want to be viewed favourably for their involvement in corporate giving they must also concurrently manage their reputation.

The limitation inherent in this study is that our sample is limited to firms that disclose of the actual amount of funds corporations invest. There seems to be reluctance by many corporations to disclose how much they give. Future research could investigate the reasons for lack of disclosure.

The findings of this study aid in building a stronger theoretical and practical foundation for corporate philanthropy. The main contribution is that overall, that firms that engage in corporate philanthropy (for whatever motivation) must also improve their reputation to increase their shareholder value. Consequently, our results are aligned with enlightened stakeholder theory because we find that corporate philanthropy may have an initial detrimental impact on profitability but contributes to the improvement in the company's market image which then translates to increases in market valuation in the longer-term. Our

results support the notion that corporate philanthropy has not only the benefits to society, but also distinct financial benefits to an organisation.

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Table 1

Industry Frequencies

Industry	**number**	**percent**
Mining	32	9.7
Construction and materials	19	5.8
Financial services	24	7.3
Gas and water	12	3.6
Industry transport	15	4.5
Travel and leisure	22	6.7
Chemicals	12	3.6
General industrials	9	2.7
Healthcare	17	5.2
Banks	18	5.5
Real estate	10	3.0
Oil equipment	7	2.1
Industrial metals	12	3.6
Oil and gas	16	14.8
Support	12	3.6
Beverages	7	2.1
Real estate trusts	24	7.3
Software	6	1.8
Pharmaceuticals	4	1.2
General retail	17	5.2
Food and beverage	5	1.5
Food	3	9
Non-life insurance	6	1.8
Telecommunications	5	1.5
Food and drugs	6	1.8
Metal products	2	6.8
Electricity	3	9
Aviation	2	6
Energy	2	6
	330	**100**

Table 2 Descriptives

Panel A

	REP RISK	PBT $'000s	CORP GIVING %	ROAt	MKTCAPt $'000s	FCFt $'000s	TSRt	TOBQt	COAGE	LEVER AGGE	TA $'000s
Mean	65.007	1168919	0.321	0.076	12161018829	-1190000	5.985	0.912	43.07	2.343	42500000
Median	65.000	319745	0.425	0.061	4054902078	119000	5.871	0.510	28.00	1.913	5990000
Std. Dev	12.643	3363820	0.841	0.067	26599790751	11100000	3.649	1.379	38.378	1.684	138000000
Minimum	31.0	-2955500	0.000	0-.207	.0000	-82600000	0.250	-0.641	<1.00	0.8118	8638
Maximum	93.0	31225000	7.846	0.442	233129000000	71600000	40.703	9.185	179	17.374	808000000

Panel B Dichotomous variables

Variable	**total**	**No# 1**	**%**
GRI REPORTING	300	153	51
SOCIAL	330	27	8.2
ENVIRONMENTAL	330	107	32.4
SECONDMENT SCHEME	301	131	39.7
GIFTS IN KIND	301	220	26.7
DETAILED REPORT	330	261	79.1
PAYROLL GIVING	301	134	91.2
BOARD MEMBER IN COMMUNITY INVOLVEMENT	294	57	17.3
SENIOR MANAGER COMMUNITY INVOLVEMENT	293	113	34.2

GRI REPORTING are the firms in the sample that provide GRI compliant reports

SOCIAL externalities are gambling, alcohol, tobacco, and pharmaceuticals

ENVIRONMENTAL impacts are chemicals , mining and utilities

Employee secondment can include allowing staff to spend (paid) time working on or providing services to community/charitable activities. For example, reading in schools or time off for volunteering activities.

The Company has a payroll giving scheme

The Company provides equipment or low-rent premises

The Company has a Community Report published giving details of projects supported

The Company has a Board Member with overall responsibility for community involvement

The Company has a senior manager responsible for community involvement

Definitions:

REPRISK: reputation risk score out of 100;CORPGIVING: corporate giving as a percentage of profit before tax TOBQt: the market value of equity and debt divided by the book value of total assets in year t;TOBQt-1: prior year TOBQ; LNMKTCAP: Closing share price on the last day of the company's financial year * number of shares outstanding at the end of the period, logged; ROAt: current year ROA [Net Income + Interest Expense*(1-Corporate Tax Rate)]/[Total Assets - Outside Equity Interests; INDY: dummy variable 1 for mining and travel and leisure; FCFt: Free cash flows (profit after tax - changes in capital expenditure + depreciation & amortization - changes in working capital); SOCIAL: Dummy variable where gambling, alcohol, tobacco, and pharmaceuticals,1: 0 otherwise. ENVIRON : Dummy variable where chemicals , mining and utilities,1: 0 otherwise; PBTt: Profit before tax; LNTAt = Total assets, logged;, 0 otherwise; LEVERAGE: total assets divided by total liabilities; YEAR: dummy variable 1 for 2011, 2012, 2013; 0 otherwise.

Table 3: Pearsons Correlations (N = 300)

	REP RISK	SOCIAL	ENVIRON	GRI	PBTt	CORP GIVE	SECOND	PAY ROLL	GIFTS	DET AIL	BRD MEM	SNR MGT	ROAt	LN MKTCAPt	FCFt	LEVt	LN TAt	TRSt	TOBQt	CO AGE
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	1.000																			
2	-0.092	1.000																		
3	0.008	-.211**	1.000																	
4	.246**	-0.1059	0.2713	1.00																
5	.179**	-0.085	.129*	.276**	1.000															
6	.157**	-0.051	-0.013	.270**	0.072	1.000														
7	.190**	-.155**	-0.018	.325**	.236**	.146*	1.000													
8	.340**	-.119*	-0.031	.240**	.278**	.144*	.374**	1.000												
9	.233**	-.191**	-0.083	.306**	.175**	.177**	.124*	.180**	1.000											
10	.289**	-0.083	-0.021	.245**	.149**	.154**	.304**	.325**	.481**	1.000										
11	.185**	-.157**	0.087	.264**	.344**	.148*	.301**	.314**	.209**	.224**	1.000									
12	.363**	-.159**	-0.001	.393**	.309**	.258**	.367**	.417**	.262**	.333**	.487**	1.000								
13	-.140*	0.098	0.070	-.194**	0.045	-0.024	-0.026	-.166**	-.173**	-0.059	-.187**	-.356**	1.000							
14	.351**	0.093	.083*	.465**	.660**	.307**	.376**	.426**	.371**	.291**	.356**	.348**	-0.137	1.000						
15	-0.053	0.037	0.099	-.155*	-.213**	-0.009	-0.092	-0.114	-0.064	-0.056	-.170**	-.172**	.157**	-.277**	1.000					
16	.326**	-2.111**	-0.036	-.008	.519****	0.304**	.314**	.470**	.384**	0.295**	.353**	.598**	-.553*	.790**	-.347*	1.000				
17	0.075	-0.090	-.129*	.447**	.519**	0.035	.226**	.289**	.167**	.143*	.306**	.334**	-.231**	.790**	-.667**	-.190**	1.000			
18	0.058	-0.098	-.143*	.008	-0.001	-0.001	0.113	.143*	-0.006	0.032	0.008	.115*	-0.017	0.024	-0.083	0.103	.138*	1.000		
19	-0.113	.129*	0.020	-.243**	-0.036	0.033	-0.006	-.218**	-.206**	-0.075	-.149*	-.295**	.798**	-0.136	0.081	.241**	-.571**	-.126*	1.000	
20	0.092	-0.014	.276**	0.093	.199**	0.024	0.094	.217**	.142*	.263**	.229**	.188**	-0.021	.221**	0.041	0.074	0.105	-.128*	-0.027	1.000

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4:

Determinants of shareholder value (Tobin's Q and TSR). This table presents the instrumental variables in the form of 3SLS regression models. The first-stage model is not reported for parsimony. The results of simultaneously testing the three equations for the role of corporate giving, reputation risk management and performance are presented. Two-tailed Z statistics in parentheses significant at 0.01 ***; 0.05**; 0.10*; levels.

	Panel A: Tobins Qt						Panel B: TSRt					
	CORP GIVING		REP RISK		TOBQt		CORP GIVING		REP RISK		TSRt	
CONS	1222.44		-143.87		38.05		1084.27		-143.86		-61.14	
	(4.01)	***	(-2.31)	**	(2.88)	***	(3.85)	***	(-2.31)	**	(-1.29)	
CORPGIVINGt			5.330		-1.084				5.958		-2.643	
			(8.63)	***	(2.30)	**			(9.96)	***	(-1.32)	
REPRISKt	0.184				0.052		0.166				-0.077	
	(10.31)	***			(3.26)	***	(10.59)	***			(-1.19)	
CORPGIV*REPRISK					0.007						0.027	
					(1.85)	*					(1.56)	
ROAt	1.391						1.748					
	(2.19)	**					(2.73)	***				
LNMKTCAPt	-193.169						-171.368					
	(-4.40)	***					(-3.38)	***				
FCFt	<0.000						<0.000					
	(0.1)						(-0.15)					
COAGEt	-0.0001						-0.0001					
	(0.15)						(0.13)					
SOCIALt			0.512						0.513			
			(0.61)						(0.61)			
ENVIRONt			0.737						0.815			
			(1.42)						(1.49)			
LNTAt			50.609		-10.073				57.977		17.019	
			(3.32)	***	(-2.94)	***			(3.57)	***	(1.38)	
PBTt												
			1.48e-10						1.75e-10			
TOBQt-1/TSRt-1			1.44		0.822				(1.67)	*		
					(22.91)	***						
LEVERAGE					-0.010						-0.186	
					(-0.42)						(-1.62)	*
INDUSTRY	NOT SIGNIF						NOT SIGNIF					
2012					0.025						0.382	

					(0.27)								(0.86)	**	
2013					0.120								1.172		
					(1.21)								(2.50)	**	
N	299		299		299		299			299			299		
CH1 [2]	216.33	***	77.27	***	1342.03	***	206.28	***		117.53	***		211.33	***	
First stage Adj R^2	0.614		0.153		0.881		0.614			0.158			0.484		

Definitions:

Endogenous variables: REPRISK: reputation risk score out of 100*;CORPGIVING:* corporate giving as a percentage of profit before tax *TOBQt:* the market value of equity and debt divided by the book value of total assets in year t;*TOBQt-1*: prior year TOBQ;

*Exogenous variables: CORPGV*RREPRISK:* interaction term. *LNMKTCAP:* Closing share price on the last day of the company's financial year * number of shares outstanding at the end of the period, logged; *ROAt:* current year ROA [Net Income + Interest Expense*(1-Corporate Tax Rate)]/[Total Assets - Outside Equity Interests; *INDY*: dummy variable 1 for mining and travel and leisure; *FCFt:* Free cash flows (profit after tax - changes in capital expenditure + depreciation & amortization - changes in working capital); *SOCIAL:* Dummy variable where gambling, alcohol, tobacco, and pharmaceuticals,1: 0 otherwise. *ENVIRON :* Dummy variable where chemicals , mining and utilities,1: 0 otherwise; *PBTt*: Profit before tax; *LNTAt* = Total assets, logged;, 0 otherwise; *LEVERAGE:* total assets divided by total liabilities; *YEAR:* dummy variable 1 for 2011, 2012, 2013; 0 otherwise.